



NATIONAL ENDOWMENT FOR THE Humanities

Program-Specific Audit Guide for Recipients of NEH Challenge Grants (CFDA No. 45.130)

The information in this guide is based on the following documents available on the NEH website: the application guidelines for NEH Challenge Grants and Challenge Grants for Two-year Colleges, the Administration of NEH Challenge Grants (revised February 2011) and the Do's and Don'ts in Administering Your NEH Challenge Grant.

National Endowment for the Humanities

The National Endowment for the Humanities (NEH) is an independent grant-making agency created by Congress in 1965 to support research, education, and public programs in the humanities. Grants are made through four divisions (Preservation and Access, Public Programs, Research, and Education), the Federal-State Partnership, the Office of Challenge Grants, and the Office of Digital Humanities.

Challenge Grants

NEH challenge grants help institutions and organizations engaged in humanities activities to secure long-term support for, and improvements in, their programs and resources. Grant funds must be expended in accordance with the approved challenge grant proposal and budget or any written amendments.

With the exception of elementary and secondary schools, any U.S. nonprofit institution (public agency or private nonprofit organization) working wholly or in part within the humanities is eligible to apply.

The recipient of a challenge grant must raise, from non-Federal donors, three times the amount of Federal funds offered. Other matching ratios are possible under special circumstances, and the auditor should confirm the amount of gifts to be raised by referring to the offer letter and amendments.

Eligible Uses of Grant Funds

In general, grant funds (Federal and non-Federal combined), may be used to support the study of the humanities where that support is long-term. Funds may be invested in an endowment that produces income to support such diverse humanities programs as faculty development, cataloguing collections, fellowships, lecture series, visiting scholars, publishing subventions, hiring consultants, maintenance, endowed positions, acquisitions, and preservation/conservation programs.

Outright expenditure is allowable when the item purchased has innate longevity such as materials that enhance or develop library or museum collections, orientation exhibits, construction or renovation of buildings, equipment, fund-raising costs (limited to 10 percent of total grant funds), and retirement of debt. Grant funds may also be used for bridging support, where the plan provides for endowment support at a future date. For example, if a college needs an instructor in Arabic language and literature, the challenge grant budget could allow for that salary to be paid out of grant funds for the first three years while the endowment fund is building to a level that ensures permanent support for the new faculty position. All Federal and non-Federal challenge grant funds must be expended during the grant period.

*Please note that indirect cost recovery is prohibited under the challenge grant program.

Ineligible Uses of Grant Funds

Expenditures not eligible for funding are:

- direct subsidies for general operations;
- funds for awards or stipends to students below the graduate level (*Note:* This use of funds is eligible in *We the People* challenge grants, a special initiative conducted between 2003 and 2009. Special initiative challenge grants are designated by a CZ prefix); and
- support for short-term projects eligible for grants from other NEH programs.

Eligibility Criteria for Gifts Certified to NEH

A. General Criteria

The basic criterion for gift eligibility is that gifts must be in response to, in anticipation of, or restricted by the donor to the same purpose as the NEH challenge grant and therefore "new."

1. All donors of restricted gifts must be aware that their gifts are to be used to match an NEH challenge grant. Unrestricted gifts (allowed only for challenge grants awarded after May 2005) may be certified for match only up to a total amount equivalent to the Federal portion of the challenge grant.

2. All gifts must be used to support the purposes outlined in the approved challenge grant application. Where the grant supports more than one activity, donations restricted to any one activity are limited to the amounts indicated in the approved challenge grant budget for that activity.
3. All matching gifts, restricted and unrestricted, must be given or pledged, and pledges paid during the approved challenge grant period.
4. Gifts may not derive from the grantee institution itself, i.e.:
 - the sale of land or assets already owned by an organization would not be eligible unless the land or asset was donated within the grant period as an unrestricted gift;
 - income from endowed funds is not eligible; and
 - grantees may not include, as part of their match, any interest earned on gifts made for challenge grant purposes.
5. Normally challenge grant funds, both Federal and non-Federal portions, are received, held, and managed by the grantee institution. Any other arrangement (for example, with university foundations, friends groups, community foundations, parallel foundations, donor-advised funds) requires advance approval from NEH.

B. Kinds of Eligible Gifts

Grant recipients have the responsibility to maintain documentation supporting the eligibility of all matching funds, and their records are subject to audit. To be eligible as a restricted gift, the gift must represent a specific and documented response to the NEH challenge. The following are the principal kinds of gifts that may be eligible as matching donations.

1. Cash.
2. Non-Federal grants. A non-Federal grant may count toward matching when awarded during the challenge grant, but the award must be paid and expended before the end of the grant period.
3. Special legislated non-Federal appropriations from state, county, or municipal governments. This appropriation must represent a level of support above the normal appropriation for the grantee institution. Legislated appropriations may count toward matching when passed by the appropriate legislative body during the grant period, but the appropriation must be paid and expended before the end of the grant period.
4. Net proceeds from special fund-raising events or benefits held specifically to raise matching funds for an NEH challenge grant. (Publicity materials and other relevant receipts must be maintained to support gifts certified.) Only the net proceeds are eligible. The intrinsic value of items donated for auction or sale is not eligible.

5. Membership contributions, "friends" or alumni giving, or similar campaigns. The value of any tangible items received by donors, such as magazines, newsletters, or gift "premiums", must be deducted from a membership contribution to assess the actual gift value. Membership forms or solicitation material should indicate that contributions will be used for challenge grant matching purposes.
6. Earned income, such as income from publications or gift shop sales. Only the net income is eligible. To qualify as a restricted gift, such sales must be clearly identified as responses to the challenge grant. (The grantee has been advised to submit copies of publicity materials and other relevant receipts and financial records to NEH.) *Note:* The total amount of earned income allowed may not exceed the Federal portion of the challenge grant.
7. Marketable securities, valued as of the date of transfer from donor to the grant recipient.
8. Real estate, under the following circumstances:
 - if converted into cash by means of sale before the end of the grant period (the value of the gift is then equivalent to the net sale value); or
 - if income-producing and such income is restricted by the donor to the purposes of the grant (the value of the gift is equivalent to the value of the income received during the grant period).

However, a contract for the sale of real estate may not count toward the matching requirement prior to the final completed sale.

9. In-kind gifts or donated services are eligible only if the material or service provided is appropriate to the approved purposes of the challenge grant and approved in advance by NEH. Gifts of tangible property not approved by NEH as an in-kind gift must be converted to cash to be eligible for match. The total amount of in-kind gifts allowed may not exceed the Federal portion of the challenge grant.

NOTE: Three categories of donations – in-kind gifts, earned income, and unrestricted gifts – are each limited in amount to the Federal portion of the challenge grant. Furthermore, the total of these three categories of gifts, added together, may not exceed the Federal portion of the challenge grant.

Also, all Federal and non-Federal challenge grant funds must be expended during the grant period. Funds earmarked for endowment (or spend-down funds) in the approved challenge grant budget are considered to be “expended” upon deposit into an income-earning account established as an endowment (or spend-down) fund.

C. Pledges

Pledges may count toward the release of Federal funds when made during the challenge grant period, but all pledges must be paid and expended before the end of the grant period. Such pledges must be in writing and constitute a legally binding promise to pay.

D. Planned Gifts

In order to qualify as a gift eligible for Federal matching through the NEH Challenge Grants program, an instrument of planned giving must meet the following conditions:

1. The value of the gift must be determinable and unchangeable.
2. The gift must be irrevocable.
3. The gift must be expendable within the grant period for the purposes of the challenge grant.
4. The gift must be given (or pledged) within the grant period.

Primary examples of planned gifts include Charitable Gift Annuities (CGA), bequests, and gifts from an estate.

E. Ineligible Gifts

The following are examples of ineligible gifts:

1. Gifts deferred beyond the end of the grant period.
2. Discounts on goods or services provided through contracts.
3. Other Federal funds or funds derived from Federal sources.

Audit Objectives/Audit Program

This document is a supplement to Office of Management and Budget Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

The auditor should be aware of the following:

In a particular fiscal year, the grantee may receive donations, certify them, and not receive Federal funds during that fiscal year. Although Federal funds have not been received, the auditor is still required to perform audit procedures on the donations certified. Also, because of the possibility of double-counting (i.e. pledges and cash), the auditor is advised to review cumulative workpapers supporting certification forms submitted to NEH.

The audit objectives and related audit procedures are:

1. Determine that the gifts certified are eligible. The basic criteria for gift eligibility stipulate that restricted gifts must be in response to, in anticipation of, or restricted by the donor to the same purpose as the NEH challenge grant; and that all gifts must be given within the grant period. All donors of restricted gifts must be aware that their gifts are to be used to match an NEH challenge grant. Restricted gifts of \$5,000 or more must be supported by letters from the donors.

- Reconcile the grantee's "Certification of Matching Gifts for NEH Challenge Grant" with the general ledger(s)--cash and pledges. Report any discrepancies.
- On a test basis, select gifts certified to NEH of \$5,000 or more. Each restricted gift must be supported by a letter from the donor that specifically mentions that the contribution was made in response to the NEH challenge grant. Each gift letter must be dated within the grant period.

***Please note that additional documentation must be provided to NEH with certain types of gifts to include real estate, in-kind donations, special appropriations, planned gifts, gifts from estates, and alternative arrangements. Also see audit step #3 below.**

- For restricted gifts under \$5,000, ascertain the grantee's policy to ensure that the gifts certified are eligible (see Eligibility Criteria for Gifts Certified to NEH) and confirm that the policy is consistently followed. For restricted gifts, the grantee must be able to prove donor awareness of the NEH challenge grant by retaining evidence such as brochures, posters, recordings, newsletters, and other publicity materials that specifically mention the NEH challenge grant. Proof of donor awareness can also be in the form of individual transmittal letters.
- Certification of Unrestricted Gifts (Challenge grant awards made after May 2005): The total of certified unrestricted gifts cannot exceed the Federal portion of the challenge grant award.
 - a. Ensure that the total of unrestricted matching gifts reported on the most recent certification report does not exceed the Federal portion of the NEH award.
 - b. Gain assurance that these matching gifts truly represent unrestricted donations received from outside donors during the challenge grant period, (i.e. grantee did not improperly reclassify other restricted gifts as unrestricted for challenge grant matching purposes). When certifying unrestricted gifts, grantees must document the nature of any account/fund that contains gifts considered to be unrestricted and transferred to the challenge grant.

- If applicable, ensure that the total of unrestricted gifts, in-kind donations, and earned income reported on the most recent certification report does not exceed the Federal portion of the challenge grant award.
2. Determine that pledges are eligible. In order to count toward match, pledges certified to the NEH must have been made during the challenge grant period and be paid to the grantee prior to the end of the challenge grant period. Pledges must also be expended before the end of the grant period.
- Review pledges of restricted gifts to determine that they are in response to the challenge grant. Review all pledges that are certified to release Federal funds to determine that they were made during the grant period. All pledges must be in writing.
 - Trace certified pledges to the cash receipts journal(s) for the grant period. Ensure that the grantee did not certify both the pledges and cash (double-counted).
 - If applicable, determine if any unpaid pledges existed at the conclusion of the grant period. If so, ensure that the grantee properly adjusted the final certification report submitted to NEH to exclude these matching gifts.
3. Determine that required additional documentation was submitted to the NEH to supplement certifications containing non-cash gifts (i.e., gifts of real estate; in-kind gifts of service or material; or other types of tangible donations). All non-cash gifts require additional documentation to be submitted to the NEH Office of Grant Management to supplement the certification form and transmittal letters.
- Prepare or obtain a schedule of non-cash gifts and ascertain that required supporting documentation was submitted to the NEH Office of Grant Management.
 - Determine that NEH provided the grantee with a letter approving the amounts certified as non-cash gifts.
 - If the non-cash gifts have not been properly reported to NEH, report the deficiency.
4. Determine that expenditures were made in accordance with the terms of the approved budget and any amendments.
- Review grantee's accounting records and source documentation for expenditures to assure that funds were spent in accordance with the budget, and that the expenditures are in accordance with provisions of the applicable OMB Cost Principles (2 CFR, Part 220, 225 or 230) as articulated in Appendix 4, (General Terms and Conditions) of the *Administration of NEH Challenge Grants* publication. Also assure that the interim and final performance reports reflect an

accurate reporting of the expenditures. [Refer to the *Administration of NEH Challenge Grants* publication, Section VII -- “Reporting Requirements”.]

- **Special audit procedures** for challenge grants supporting construction of a free-standing structure, building renovations, or additions to buildings of any age.
 - a. Verify that the grantee consulted with their state historic preservation officer to determine if a property or site is listed, or is eligible for listing, in the National Register of Historic Places, and whether the proposed construction or renovation would have an adverse effect on the historic nature of the property.
 - b. Verify that the grantee provided NEH with a copy of the opinion of the preservation officer.
 - c. Verify that the grantee has a system in place for monitoring its contractors and subcontractors with respect to payment of prevailing wages under the Davis-Bacon Act.
 - d. Verify that the grantee provided the required assurances to the Secretary of Labor that all laborers and mechanics employed by contractors or subcontractors on NEH-supported construction projects were paid wages at rates that are not less than those prevailing on similar construction in the locality, as determined by the Secretary of Labor in accordance with the Davis-Bacon Act, as amended, 40 U.S.C. 276a-276a-5.

Note: Acceptance of Federal funds in support of a renovation or construction project that is subject to the Davis-Bacon Act will subject the entire project to prevailing wage rate requirements regardless of the proportion of Federal funds to total project costs. Additional information is available by contacting the U.S. Department of Labor, Wage and Hour Division, Division of Contract Standards and Operations, 200 Constitution Avenue, NW, Washington, DC 20210.
 - e. Real property purchased, constructed, or renovated with challenge grant funds may not be sold or otherwise disposed of without prior approval of the NEH. The auditor must verify that such a sales transaction did not transpire.
- **Special audit procedures** for challenge grants supporting the creation of Endowments.
 - a. Verify that the grantee properly reported the related Federal expenditures associated with the endowment award on the Schedule of Expenditures of Federal Awards (SEFA) in accordance with the unique provision articulated in OMB Circular No. A-133 (see below):

- OMB Circular A-133, Section 205(e) states that the cumulative balance of Federal awards for endowment funds which are federally restricted are considered awards expended in each year in which the funds are still restricted. The publication, [Administration of NEH Challenge Grants](#), states that funds earmarked for endowment are considered to be “expended” upon deposit into an income-earning account established as an endowment. Accordingly, for purposes of determining whether an OMB Circular A-133 audit is required, the cumulative balance of challenge grant funds received by the organization should be included in the computation of Federal awards expended each year and compared to the single audit threshold (currently \$500,000 or more).
- b. Verify that the grantee has instituted adequate controls over the Endowment funds and earnings to ensure they are properly tracked and segregated in the accounting records. Additionally, ascertain if a spending policy exists and that funds released annually are spent to support the humanities in accordance with the purposes of the challenge grant award.
5. Determine that required reports have been properly submitted to the NEH. The challenge grant award letter documents the report due dates to include certification reports, interim performance reports, and the final performance report.
- Review grant file and confirm that the required reports have been submitted in a timely fashion and include the required content.

FINAL NOTE: Section 956(h)(1)(A) of the NFAH Act (20 U.S.C.) supersedes the following sections of the OMB Cost Principles, therefore fundraising and investment management fees are deemed allowable costs within the NEH challenge grant program:

- 2 CFR Part 220, Cost Principles for Educational Institutions (OMB Circular A-21), Appendix A, J.20
- 2 CFR Part 225, Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87), Appendix B.17
- 2 CFR Part 230, Cost Principles for Non-Profit Organizations (OMB Circular A-122), Appendix B.17